

OFFICE OF AUDITS
MEMORANDUM REPORT 98-CG-016
REVIEW OF THE INTERNAL CONTROLS OVER
PROCUREMENT OPERATIONS AT EMBASSY NASSAU

This report presents the results of the Office of Inspector General's (OIG's) review of the internal controls over Embassy Nassau's procurement and related fiscal operations. Embassy Nassau requested the review because a Foreign Service national (FSN) employee diverted Embassy funds for personal use. After OIG's Office of Investigations completed an investigation of the allegation, Embassy officials requested OIG's Office of Audits to review procurement operations and identify internal controls in need of improvement.

We identified various internal control weaknesses throughout the procurement process. Some of the more significant weaknesses included inadequate procedures to ensure compliance with regulations for processing and certifying vouchers and claims, inconsistent review of post financial reports, and incomplete vendor documentation. Factors that contributed to these weaknesses included a lack of training and inadequate oversight of daily financial operations. These and other deficiencies collectively contributed to the problems that made Embassy Nassau susceptible to fraud, waste, and mismanagement.

We discussed our findings at exit conferences with the Ambassador on July 11, 1997, and the deputy chief of mission on July 17, 1997. They agreed, in general, with our findings and said they would implement improvements in internal controls. Comments by Embassy Nassau officials have been included, as appropriate, in the body of the report.

PURPOSE, SCOPE, AND METHODOLOGY

The purpose of this review was to evaluate the internal controls for Embassy Nassau's procurement operations. Our review included observing the various steps of these operations; testing a sample of transactions from FYs 1992 through 1997 for reliability, accuracy, and completeness; and interviewing Embassy personnel involved with procurement. We reviewed the internal controls and observed cashiering management operations, examining selected aspects of the process. In addition, we interviewed key individuals and officials from Embassy Nassau, the Bureau of Finance and Management Policy, the Bureau of Inter-American Affairs, and the Florida Regional Center.

We conducted this review in accordance with generally accepted government auditing standards and included such tests of the accounting records and other auditing procedures considered necessary under the circumstances. Because the procedures performed do not constitute an audit of the Embassy's procurement or financial operations performed in accordance

with generally accepted government auditing standards, we do not express an overall opinion on such operations at the Embassy. If we had performed additional procedures or conducted an audit in accordance with generally accepted government auditing standards, other matters might have come to our attention that would have led to different results and conclusions.

OIG's Office of Audits, Contracts and Grants Division, performed the majority of the work between July and December 1997. OIG conducted overseas fieldwork between June 30 and July 18, 1997. Major contributors to this report were Ken Comer, division director; Steven R. Pinard, auditor-in-charge; and Jacqueline Billmeyer, senior auditor.

BACKGROUND

In 1990, an FSN employee in the general services section of Embassy Nassau established a private packing and moving company, Reliable Customs Brokerage (Reliable). The Embassy used Reliable as one of the five companies to pack and move the household goods of Americans arriving and departing post.

The FSN took copies of invoices from other shipping and packing companies, blocked out the company's name, typed "Reliable Custom Brokerage" on the invoice, made a photocopy, and submitted the photocopy for payment. When the check arrived at the Embassy, the FSN picked up the check from the cashier, stating he would deliver it to Reliable. The FSN would then deposit the check into his personal bank account.

When the shipping and packing companies called the Embassy about nonpayment, the FSN, according to Embassy officials, told the companies that their invoices were being processed for payment. Furthermore, the FSN told the companies that the delay stemmed from the length of time it took the Embassy to process the payments. After a period of time, the companies contacted the administrative officer who began inquiring about the nonpayments. At this point, the FSN admitted his role in the scheme. The admission led to an investigation by OIG's Office of Investigations and, subsequently, to this review of the post's procurement operations.

The Ambassador requested OIG's Office of Audits to perform this work in order to prevent a recurrence. Our review of the accounting records for FY 1992 (the first year for which records were available) through FY 1997 revealed that the Embassy made payments totaling about \$96,000 to Reliable during the period. Although Reliable performed some of the services for which it was paid, it appeared that Reliable billed for services totaling about \$34,400 that other shipping and packing companies performed. Subsequent to the review, the FSN was sentenced to 3 months probation and signed over his retirement check of about \$40,000 to the Embassy.

GENERAL OBSERVATIONS

Internal control weaknesses occurred in processing procurement transactions, tracking the assignment of voucher numbers, reviewing financial information, and selecting companies to provide packing services. Some of these weaknesses likely made it easier for the Foreign Service National employee to commit the illegal acts without detection.

Processing Procurement Transactions

Personnel frequently did not follow established procedures for processing and certifying vouchers and claims. During FYs 1996 and 1997, the Embassy processed over 7,100 vouchers. A review of a judgmental sample of 52 vouchers from the 2 years identified various internal control weaknesses.

- Personnel did not include some or all of the necessary authorizations, such as the certifying, receiving, and ordering officers' signatures on 19 of the 52 vouchers (37 percent). Foreign Affairs Handbook (FAH) 04-03H-0433 and FAH 04-0424 establish responsibilities and procedures for processing payments. The fiscal official must review the availability of funds, approve the funding, and obligate the funds to ensure the Embassy does not violate the Antideficiency Act. This act prohibits any officer or employee of the U.S. Government from making or authorizing an expenditure, obligation, or other commitment of funds under any appropriation in excess of the available funds or in advance of an appropriation, unless the obligation is otherwise authorized by law.
- Personnel prepared 24 of the 52 vouchers (46 percent) after the Embassy received the goods or services. For example, the Embassy received support services in the amount of \$50,668 from one vendor. The date of the invoice for the recurring expense was March 31, 1997, but fiscal personnel did not prepare the purchase order until April 16, 1997. FAH 4-034.0053.7 states that a purchase order becomes an obligation when it is issued, and the term "issued" means that it is approved by a purchasing officer and validated that funds are available.
- The Embassy approved payment for 13 of the 52 vouchers (25 percent) without proper support or with improper photocopies. FAH 4-03H-0422 requires that payments be made on an original invoice. If the original is lost, a copy marked "Duplicate Original" may be used when supported by an administrative approval on the document. Paying from original invoices provides some assurance that an invoice is not paid twice and that the invoice has not been altered.
- The Embassy did not pay 14 of the 52 vouchers (27 percent) within 30 days of the invoice date as required by the Prompt Payment Act. This act requires agencies to pay bills, including those to foreign vendors, within 30 days of receiving an invoice from the vendor. FAH 04-03H-0422.1-1 identifies the date the Embassy receives the invoice as the date the billing office receives a proper invoice or 7 days after delivery,

whichever is later. Because personnel did not date stamp the invoices, we used the date of the invoice to calculate the 30 days.

OIG also identified an opportunity for the Embassy to reduce the number of purchase orders issued by using a miscellaneous obligation document (MOD). FAH 04-03H-0052.3 states that a MOD can be used for recurring obligations and as a control for multiple payments. Officials could use a MOD to pay recurring expenses such as utilities, rents, and recurring support services to reduce the number of individual purchase orders that the post has to prepare.

Assigning Voucher Numbers

We occasionally encountered difficulty in tracking voucher numbers assigned by the Embassy. The Embassy used a voucher book to keep track of the vouchers it issued. For each voucher, personnel recorded the voucher number, date, vendor's name, and the amount. Once the Embassy received a check from the Financial Service Center in Charleston, personnel also recorded the check number and date in the voucher book. OIG identified several errors in the voucher book. Although the voucher books indicated that the Embassy issued 10,270 vouchers during FYs 1995 through 1997, 583 voucher numbers were not listed in the book. However, 165 of the 583 voucher numbers were contained in the Embassy's day files. The book also contained 26 duplicate numbers. Our review did not disclose any duplicate payments or payments for goods or services that should not have been made.

Several conditions could account for these discrepancies. The voucher book is kept manually. Consequently, it lacks the built-in checks that could preclude such problems as number duplication or skipping. Also, several individuals at the Embassy entered information into the voucher book. Because no one person was designated to assign and control voucher numbers, the likelihood increased that errors would occur.

Reviewing Financial Information

Weaknesses in reconciling financial reports and making unannounced cash counts increased the likelihood that improper transactions could go undetected. Although we did not conduct an audit of the Embassy's financial operations, we reviewed selected aspects of the operations as they related to the overall operation of the Embassy and the procurement of goods and services.

Personnel frequently did not review the *Status of Funds* and *Status of Obligations* reports to identify potential problem areas. As evidenced by OIG's review of the reports for the period ending September 30, 1996, funding totals on the two reports sometimes differed. For example, the *Status of Funds Report* showed a funding level of \$1,038,892 for fund 4103 for FY 1996. The *Status of Obligations Report* showed a funding level of \$1,025,669--a difference of \$13,223. OIG also noted differences in other fund balances. The financial specialist was unaware of these differences. Foreign Affairs Manual (FAM) 04-0086 requires officials to review obligations at least monthly and resolve any differences. Failure to correct these differences makes the Embassy

vulnerable to undetected or improper transactions such as unrecorded expenses or duplicate entries.

Embassy personnel did not conduct unannounced cash counts on a monthly basis. The cashier's file documented cash counts conducted for the beginning and end of May and July of 1997 and June and October 1996. It did not appear that other cash counts were conducted from June 1996 through July 1997. Documents also noted that the regional budget officer reminded the administrative officer in January and November 1996 of the responsibility to make monthly unannounced counts of the cashier funds. Furthermore, while OIG was discussing operations with the cashier, the administrative officer came by and made an appointment to do the monthly "unannounced" cash count later that day. The cashier told OIG this was standard practice.

Selecting Companies to Provide Packing Services

The Embassy did not have a systematic process to select companies to pack employees' household effects. At the time of our visit, the Embassy used five local companies to furnish packing services to employees. When services were needed, Embassy personnel would call one of the companies and ask if the company could perform the service. FAH 06-01H-0162.1-1 suggests that embassies consider establishing an indefinite delivery contract in accordance with the Federal Acquisition Regulation if the volume of services is expected to exceed \$25,000 each year.

At the time of our visit, the general services officer was soliciting bids for packing and shipping services. By negotiating contracts for these services, the Embassy will be able to allow the shipping supervisor to go to a specific company for the service and pay a specific rate for each service.

We also noted that the Embassy did not have procedures to fully monitor the services received. Instead, it appeared the Embassy relied on the employee for whom the services were provided to complain about any problems that might arise. Having employees who receive packing services identify such information as the name of the company, how long it took to perform the service, the number of contractor employees used, and the quality of the services received could assist the Embassy in monitoring the services.

Enhancing Embassy Oversight

Individually, weaknesses identified during the audit may not make the Embassy susceptible to fraud, waste, and mismanagement. Collectively, however, they make the Embassy more vulnerable to such actions. Accordingly, we believe that the Embassy should take action to overcome the weaknesses. Specific actions to help overcome these weaknesses consist of:

- establishing written procedures requiring that (1) vouchers contain all proper authorizations, (2) payments are made only with proper supporting documentation and invoices are stamped "PAID" to preclude duplicate payment, (3) invoices are date stamped upon receipt to ensure compliance with the Prompt Payment Act, (4) a

specific individual is designated to assign voucher numbers, (5) the *Status of Obligations* and *Status of Funds* reports are reviewed on an ongoing and timely basis to ensure the reports are accurate and resolve differences between the various reports, and (6) unannounced cash counts are performed on a monthly basis;

- maintaining a master listing of preapproved vendors and developing procedures to approve new vendors; and
- having employees who receive packing services identify such information as the name of the company, how long it took, the number of employees used, and the quality of the services received.

The additional controls should also provide the Embassy with needed checks and balances to better manage its operations.

CONTRIBUTING FACTORS

During the audit OIG noted four factors that may have contributed to the weaknesses identified in the procurement and payment processing areas.

- Most of the FSNs assigned to procurement operations had not received formal training for their positions. FAM 3-7631 states that the heads of overseas posts or missions will provide formal and informal training for FSN employees, as necessary. Except for the cashier and the financial specialist, however, FSNs stated that they had only received on-the-job training. Also, the administrative officer had not received any financial or certifying officer training. While the general services officer had taken the general services operation course given at the Foreign Service Institute, training was cut short because of the U.S. Government shutdown during the time the individual took the course.
- The administrative officer had direct responsibility for financial operations, because the Embassy does not have a financial management officer assigned to the post. According to the administrative officer, he was not fully involved in the daily procurement and financial operations because of his heavy workload. Because of this workload, the administrative officer placed a substantial amount of responsibility on the FSNs.
- The Embassy did not have a standard filing system for its procurement operations. The Embassy used three filing systems in the financial section and one in the procurement section. The files contained multiple copies of vouchers and invoices. Review of the general services operation's files for maintenance, customs and shipping, and real estate revealed no files for maintenance operations, incomplete files in customs and shipping, and well-documented files in real estate. A good filing system is necessary for collecting information, managing resources, and establishing institutional memory about operations. Files should be maintained in an orderly,

systematic manner so information can be retrieved completely, accurately, and quickly. Division and duplication of records among files can compromise the integrity of the information and inhibit its effective retrieval.

- The Florida Regional Center frequently did not document its site visits. In January 1996, a budget officer from the Florida Regional Center began conducting quarterly site visits to review the Embassy's financial operations. Of the six visits made at the time of our review, the budget officer had only provided the Embassy with a written trip report for the first visit. The report documented the budget officer's review and observations and listed specific areas reviewed, such as funds control, cashier activities, and budget and financial planning. Overall, Embassy personnel found the trip report helpful and informative. Instead of writing a trip report on subsequent reviews, however, the budget officer communicated the results of the reviews orally. Embassy personnel stated that reviews documented with trip reports would be of more benefit.

Although formal training may be costly and travel funds may be limited, the Embassy should consider other alternatives to providing training to procurement and financial personnel. The Foreign Service Institute provides self-study correspondence courses that are tuition free for Department of State employees. Present offerings include self-study courses for overseas cashiers and supervisors, voucher examiners, and certifying officers, plus an introductory course to simplified acquisitions and requisitions overseas.

To enhance oversight of the procurement and financial operations, the administrative officer could review a sample of leases, contracts, vouchers, and other documents to determine whether they are being properly prepared, calculated, handled, and filed. To help effect this oversight, we also suggest that the Embassy establish appropriate filing systems. Technical assistance and training on filing systems are available from the Office of Information Services' records management staff. The office provides support to Department offices and posts in establishing appropriate filing systems, reviewing the information flow, and determining the adequacy of filing techniques.

As a final measure in ensuring that the Embassy is aware of how its operations are conducted, we suggest that the Embassy request Florida Regional Center personnel to provide a written report after each visit. This will help ensure that identified weaknesses are documented and that corrective action is initiated.